

PALOS

CONTENTS

Weekly Commentary

Issue No. 22 | MAY 18, 2020

Canadian Tire - E-Commerce Growth on Wheels!	1
Palos Funds vs. Benchmarks (Total Returns)	3
Disclaimer & Contacts	4

By Charles Marleau, CIM

Canadian Tire - E-Commerce Growth on Wheels!

Industries related to entertainment, leisure and airline travel are seeing a massive decline in business activity and we do not envision a return to normalcy anytime soon. Consumers that had planned to vacation in Europe or other distant locales have either postponed their plans or cancelled them altogether. Uncertainty and fear are widespread and any prediction as to when the travel industry will see a recovery is quite simply, a guessing game.

Canadian Tire Corporation (TSX: CTC.A) is a Canadian based company. Retail operations account for the vast majority of company revenues and its flagship Canadian Tire stores offer a lineup of products/services that includes automotive, home & garden, sports, recreation, and hardware. CTC's gas/convenience store network operates over 300 locations, making CTC one of Canada's largest gasoline retailers. Further diversifying CTC is a retail network that operates apparel, footwear and sporting goods stores that includes names like Mark's, Sport Chek, Sports Experts, Hockey Experts and Atmosphere. The Canadian Tire Financial Services (CTFS) segment, which is partnered with Scotia Bank, offers financial services via credit cards, warranty related products, personal loans, and lines of credit. Clearly, Canadian Tire is not just a tire company!

Prior to the current health crisis, it was estimated that an average family would spend between 10% to 15% of their annual disposable income on a vacation. As our economy adjusts to social distancing and travel-related restrictions, it has become abundantly clear that spending habits are destined for change. My view is that we are on the cusp of a massive transition to spending not only at home, on the home as well. Vacation budgets are likely to be diverted to home furnishings, the family experience, and hobbies. Home and family related activities like camping, home frills (e.g. basketball nets), the outdoors (pools, jacuzzies, BBQ's), gardening and sports (bicycles) are certain to see an uptick. Canadian Tire is in an excellent position to take advantage of this shift.

In today's rapidly evolving e-commerce industry, it is important to recognize that not all retailers are created equal. Armed with a well diversified retail portfolio, CTC has been focused on their e-commerce initiative that is designed to maximize the online shopping experience and promote a safe and efficient home delivery service. April volume recently grew from roughly 5,000 transactions per day (prior to Covid-19) to over 80,000. In fact, this surge in online demand led to overwhelming stress and the website crashed.

By Charles Marleau, CIM

Based on my estimates, CTC is trading at 7.8x 2021 EPS and 12.5x 2020, with its historical average being 13.5x. However, a strong thesis can be made that management's proactive approach to solving the recent challenges and an increase in demand for the Canadian Tire product line should lead to higher multiples making CTC a clear winner in the "new economy".

Disclaimer: Palos Funds are shareholders of CTC.A.

Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) ¹	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$6.49	-21.10%
Palos Equity Income Fund - RRSP	PAL101	\$4.66	-17.94%
Palos Merchant Fund L.P. (Dec 31, 2019) ²	PAL500	\$1.71	20.15%
Palos WP Growth Fund - RRSP	PAL210	\$6.25	-18.33%
Palos-Mitchell Alpha Fund ³	PAL300	\$7.35	-29.13%
S&P TSX Composite (Total Return with dividends reinvested)			-13.09%
S&P 500 (Total Return with dividends reinvested)			-10.70%
S&P TSX Venture (Total Return with dividends reinvested)			-11.76%
Chart 2: Market Data ¹			Value
US Government 10-Year			0.64%
Canadian Government 10-Year			0.54%
Crude Oil Spot			US \$29.43
Gold Spot			US \$1,756.30
US Gov't10-Year/Moody BAA Corp. Spread			342 bps
USD/CAD Exchange Rate Spot			US \$0.7088

¹ Period ending May 15, 2020. Data extracted from Bloomberg

² Fund is priced annually

³ Fund is priced weekly on Tuesdays

Weekly Commentary

Issue No. 22 | MAY 18, 2020

Disclaimer:

This publication is proprietary to Palos Management Inc. (along with its affiliate Palos Wealth Management Inc., "Palos"). This publication may be copied, downloaded, stored in a retrieval system, further transmitted, reproduced, disseminated, and/or transferred, in any form or by any means, but only as long as it is unaltered and attributed to Palos. This publication and its contents may not be sold or licensed without Palos' written permission. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made or implied regarding accuracy or completeness. The information provided does not constitute investment advice and it should not be relied upon on as such. If you have received this communication in error, please notify us immediately by electronic mail or telephone. This document may contain certain forward-looking statements that are not guarantees of future performance and future results could be materially different. Past performance is not a guarantee of future performance. "S&P" is a registered trademark of Standard and Poor's Financial Services LLC. "TSX" is a registered trademark of TSX Inc. The Bloomberg USD High Yield Corporate Bond Index is a rules-based, market value weighted index engineered to measure publicly issued noninvestment grade USD fixed rate, taxable, corporate bonds. To be included in the index a security must have a minimum par amount of 250MM.

PALOS

1 Place Ville Marie, Suite 1670
Montreal (QC) H3B 2B6, Canada

T. +1 (514) 397-0188
F. +1 (514) 397-0199

1 St. Clair Avenue East Suite 504
Toronto, Ontario M4T 2V7

T. +1 (647) 276-0110
F. +1 (647) 343-7772

www.palos.ca